Annual REPORT
Fiscal Year 2000

Management and Performance Challenges

THE INSPECTOR GENERAL STATEMENT ON THE MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES FACING THE DEPARTMENT OF LABOR

The Office of Inspector General (OIG) has identified the following areas to be the most serious management and performance challenges facing the Department of Labor:

- Financial Management
- Implementation of the Workforce Investment Act
- Effectiveness of the Welfare-to-Work Initiative
- Quality of Program and Cost Data
- Security of Pension Assets
- Protection of Worker Benefit Funds
- Stewardship over DOL Information Technology Resources
- Integrity of Electronic Benefit Claims Management
- Targeting of the Dislocated Workers Program
- ILAB Expansion

1. Financial Management

The Department of Labor (DOL) has made great strides in financial management and has received clean opinions on its financial statements since fiscal year (FY) 1997. However, the OIG's audit of DOL's FY 2000 consolidated financial statements disclosed that the following systems have not yet been brought into compliance with Federal Financial Management Improvement Act (FFMIA) requirements:

1. Wage and Hour's Back Wage system; and
2. Wage and Hour's Civil Monetary Penalties system.

While several attempts have been made to correct the systems, none have been brought to a successful conclusion. The Department's Chief Financial Officer (CFO) has been providing advice and guidance to the Wage and Hour Division in its most recent actions to correct the deficiencies. The CFO does not have authority over the direct financial management operations of agencies. The authority of the CFO to deal with long-standing, intractable financial management problems needs to be reexamined when a program agency is not meeting its financial management responsibilities.

In addition, the Department continues to have unreconciled cash differences between the DOLAR$ general ledger and Treasury. Although the unreconciled differences are not a material amount to the financial statements, they amounted to over $44 million of unreconciled differences at year-end. The most serious reconciliation problems exist in ETA, where approximately $8 billion in grant payments were made through the Health and Human Service's (HHS) Payment Management System. At year-end, ETA had $13 million of net unreconciled differences at the appropriation level. The total volume of positive and negative cash differences at the document level is significantly higher. Cash differences were uncleared, incorrectly cleared, or not cleared timely during the year. Also, no cash reconciliation procedures were performed by ETA during the year to reconcile HHS grant payments to the DOLAR$ general ledger at the document level.

2. Implementation of the Workforce Investment Act (WIA)

A significant feature of the Workforce Investment Act of 1998 is the establishment of One-Stop delivery systems within each local workforce investment area. States have made substantial efforts toward establishing the One-Stop structure; however, we have several concerns, including: the use of individual training accounts, establishment of eligibility criteria for training providers, and the implementation of adequate systems to allocate costs among the One-Stop partner programs and agencies. Cost sharing presents special problems in a One-Stop environment. It is increasingly difficult to discern to which program the participants belong and who should be paying the cost of services. This is further complicated by a key principle of Federal grant accounting – that costs may be charged to a program only to the extent that benefits are received by that program.

3. Effectiveness of the Welfare-to-Work Initiative

The Welfare-to-Work (WtW) program was enacted in 1997 to help long-term welfare recipients move into unsubsidized jobs. The ability to properly measure WtW's success is hampered by questions about the consistency and quality of performance data reported by states and other grantees. Grantees are confused about the definitions of the performance information required to be reported to ETA; this suggests that data are being reported inconsistently across grantees. Moreover, the reporting requirements are in flux. The WtW Amendments, enacted in late 1999, eliminated the participant and financial reporting requirements of the original 1997 legislation. The Department expected to publish the new participant and financial reporting requirements early in 2000, but the new requirements have not been finalized. It is imperative that the Department move quickly to finalize WtW performance data collection and reporting requirements to achieve consistency, comparability and accuracy of the data used to assess this $3 billion program's effectiveness.

4. Quality of Program and Cost Data

Important initiatives, such as the Government Performance and Results Act (GPRA) and the Federal Accounting Standards Advisory Board's Standard on Cost Accounting, are under way to improve the quality of program and cost data which serve as the basis for determining the results achieved by Federal programs and operations. It is vitally important that DOL ensure performance and cost information are accurate, accessible and auditable in order for DOL's performance and accountability reporting to be credible.

Quality of Program Data:

The Department is limited in its ability to access, or control the quality of, program results data used to determine the attainment of its strategic plan goals. This includes difficulties associated with ensuring the quality of the data provided by states and other sources below the Federal level, where 90 percent of the Department's budget is actually spent.

Data Limitations:

Two important tools that may be used to evaluate program effectiveness and validate performance data in the employment and training area are Unemployment Insurance and Social Security Administration wage records of individual program participants. However, the Department is limited in its ability to obtain such data for program evaluation and validation purposes and needs statutory authority to easily obtain these types of records.

Managerial Cost Accounting:

The Department is currently developing a managerial cost accounting system to accumulate the specific costs for each program and link these costs to the program's results. However, two of the largest departmental agencies (ETA and ESA) – have not agreed to fully participate in the development of the cost accounting system. The Department must involve all of its agencies to achieve the full benefits of managerial cost accounting.

5. Security of Pension Assets

The security of pension assets is a priority of the Department and of the OIG. This includes ensuring that weaknesses, vulnerabilities, and criminal activity are identified and addressed. One area of concern involves private pension plans, which serve as an attractive target to organized crime, corrupt pension plan officials, and individuals who influence the investment activity of pension assets. OIG investigations have uncovered many criminal enterprises perpetrated by financial and investment service providers to the nation's pension plans.

6. Protection of Worker Benefit Funds

The Department administers several programs and statutes designed to provide and protect the benefits of workers. The OIG has identified serious vulnerabilities within three of the Department's major worker benefit programs:

Unemployment Insurance (UI):

We have identified a number of schemes used to defraud the program, including fraudulent employer schemes, internal embezzlement schemes, fraudulent interstate claims, and the fraudulent collection of UI benefits by illegal aliens through the use of counterfeit or unissued social security numbers. Further, our investigations have disclosed that the ability to file electronic and mail claims presented individuals with the opportunity to defraud multiple States from a single location. We believe there is a need for increased training of State employees in fraud detection techniques, improved internal program controls, and improved enforcement.

In addition, systemic weaknesses pose problems for the UI system, including loss of contributions due to the inability of States to search for hidden wages by employers who misclassify workers as independent contractors, employers who fail to report all wages paid, or employers who misrepresent their claims experience. Changes in the reporting of blocked claim audits, based on an FY 1998 OIG recommendation, resulted in the identification of more than 13,000 misclassified workers and the recovery of more than $2.5 million in UI tax contributions during FY 1999.

Federal Employees' Compensation Act (FECA):

The OIG has been working with the Department to improve the cost-efficiency of the FECA program. Recommendations include routine access to IRS wage data through the Social Security Administration (SSA) to identify and remove from the disability rolls claimants who fraudulently conceal earnings. Also, OIG investigations disclosed fraudulent activities, including: medical providers who bill the Government for services that were not rendered, charge multiple times for the same procedure, bill for non-existent illnesses or injuries, or overcharge for services; and claimants who defraud the program by reporting false injuries, recover but continue claiming benefits, or do not report or underreport their outside employment income.

<u>Black Lung Trust Fund Deficit</u>:

The OIG is concerned with the escalating indebtedness of the trust fund. The Department's consolidated financial statements for FY 2000 reflects that the trust fund is in debt $6.7 billion to the U.S. Treasury. This debt results from advances provided to the program, which have become an annual necessity for the trust fund. Currently, the excise taxes are sufficient to pay benefits and administrative costs; however, the trust fund must continue to borrow from the Treasury to pay the interest due on past advances.

Management's annual projections of future receipts and outlays indicate that cumulative borrowings from Treasury could total $57.9 billion (unaudited) by 2040. According to management's estimates, the excise tax collections by 2040 would cover less than 20 percent of the interest that is accruing and annual advances will exceed $3 billion per year. Legislation is pending that would resolve this issue.

7. Stewardship over DOL Information Technology Resources

Congress recently passed H.R. 4205, which includes a provision that requires agencies to develop and implement an agency-wide information security program. OIG work has noted increased risks for computer crimes and other interruptions made possible by the Internet and lax internal controls. As mandated by H.R. 4205, the Department needs to assure that all of its major systems are secure against threats and loss of assets.

Further, the Department is embarking upon a multi-million dollar Departmentwide IT system architecture upgrade. It is paramount for the Department to ensure that this new architecture is implemented in a careful and well thought out process. The Department needs to ensure that agencies will be able to seamlessly exchange data both within the Department and externally with stakeholders.

8. The Integrity of Benefit Programs Must be Ensured in an Electronic Environment

State Employment Security Agencies (SESAs) administer the UI and Job Service programs at the State level. SESAs are currently upgrading and modernizing their operations to offer customers telephone and Internet access to selected SESA services. In addition, the FECA program is automating all of its casework to enable the program to handle claims with more accuracy and efficiency. Recent OIG casework in the unemployment insurance arena has suggested that while improving efficiency and effectiveness, the use of automated procedures for benefit programs brings with it the potential for unauthorized activity that can contribute to fraud and result in monetary losses for the programs. The Department must utilize a comprehensive, integrated approach of oversight and enforcement to address the increased potential for fraud that accompanies electronic claims.
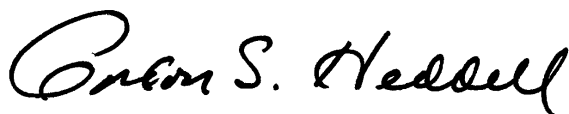
9. Targeting of the Dislocated Workers Program

DOL provides retraining and support services to eligible dislocated workers. The total appropriation for FY 2000 was nearly $1.6 billion. The OIG conducted an audit to determine whether the JTPA Dislocated Workers program served the targeted population. We found that in 35 percent of the cases, program participants were ineligible, documentation was insufficient to establish their eligibility, or available evidence caused us to question whether they were persons whom Congress intended the program to serve. The audit disclosed that where funds were allocated to localities with relatively few dislocated workers, some entities relaxed the eligibility criteria in order to spend the available funds. Further, the audit revealed that program data reported by States to the ETA were often incomplete or in error.

We believe that in implementing WIA, which continues a separate dislocated workers program, ETA needs to provide better guidance on the population to be served and explore improved means for allocating funds to areas of need. In addition, ETA needs to assure the reliability of reported program information, which is more critical because WIA ties monetary incentives and sanctions for States, service providers, and vendors to their success in serving participants as represented in their performance reports.

10. Challenges of Rapid Expansion of the Bureau of International Labor Affairs

The Bureau of International Labor Affairs (ILAB) is responsible for spotlighting significant international child labor issues and contributing to the development and implementation of U.S. policy on international child labor. The increasing concern over child labor issues has resulted, in part, in an almost sevenfold increase in ILAB's appropriations during the last two fiscal years. The exponential growth of ILAB presents unique challenges in developing and implementing systems that can support a much larger program and in providing adequate controls to assure the appropriate expenditure of Federal funds. OIG's evaluation and audit work have raised concerns about ILAB's current management structure, managerial controls over grant programs, program results, evaluation methods, and the roles and responsibilities of individual staff to adequately account for this increased level of funding. Without adequate management controls and evaluation methods, ILAB's activities and operations are vulnerable to inefficiency and waste.

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Inspector General

February 15, 2001

MANAGEMENT'S RESPONSE TO THE INSPECTOR GENERAL'S STATEMENT ON THE MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES FACING THE DEPARTMENT OF LABOR

The Department recognizes that the ten challenges posed by the Inspector General represent issues of major potential impact on the effectiveness and efficiency of the Department's programs and operations. The Department's responses identify extensive actions which have been completed or are currently in progress to address these challenges.

Several of the challenges reference specific concerns reported in detail in recent Office of the Inspector General (OIG) audits, and the management response summarizes the Department's corrective action plans. The majority of these findings, if not already resolved, should be corrected within the next year. Other challenges require legislative action at the Federal or State level, as explained in management's response. Finally, some challenges are broad issues of sound management, such as the need to exercise stewardship over significant information technology and benefit program resources. Management's response to these issues provides detailed information about the actions taken over a number of years to effectively manage these challenges. The Department will work with the Inspector General to develop an approach for reaching agreement that the Department's actions sufficiently meet each of the challenges, or what specific actions the Inspector General considers essential to resolving the challenge in future years.

The Department's Annual Performance Plan incorporates some, but not all, of the Inspector General's major management challenges. For those challenges arising from OIG audits, resolution is usually expected to occur within six months of audit issuance. The audit related challenges that can be addressed in the near-term would be resolved prior to the preparation of the next performance plan. In addition, the established audit resolution process tracks completion of each recommendation.

Where a sustained effort is required over several years and the challenge impacts a core program or management priority, performance goals and strategies are targeted in Departmental and agency plans. For example, plans at the Departmental and agency level are in place to comprehensively address the challenge of Stewardship over DOL Information Technology Resources, which centers on managing the DOL information technology system architecture upgrade and providing a secure information technology environment. Within the Department's planning structure, the Department's Cyber Security Program Plan and supporting Agency Cyber Security Plans contain milestones and a critical path to enhance the protection of key information systems. The DOL FY 2001 Annual Performance Plan also targets broad information technology performance goals addressing the implementation of the architecture and security measures. In a similar manner, the Department's Annual Performance Plan includes the goals and strategies of the Chief Financial Officer that address findings that two financial systems do not meet the requirements of the Federal Financial Management Improvement Act included in the Financial Management challenge.

Each management challenge and the actions taken or planned by the Department to address the conditions cited are discussed below.

1. Financial Management

In a continuing effort to protect and effectively manage the Department's financial resources, the Office of the Chief Financial Officer (OCFO) has worked closely with a number of program agencies to resolve outstanding compliance issues. OCFO has taken a leadership role in bringing together financial,

program, and audit staffs in order to focus on the issues at hand, and work toward solutions. To that end, all but two of the Department's Federal Financial Management Improvement Act issues have been resolved, and we anticipate those being addressed this fiscal year.

The Department agrees that cash reconciliations are necessary and must be performed, at a minimum, on a monthly basis. OCFO has formed an internal task force dedicated to addressing cash reconciliations Departmentwide. This task force has been chartered to ensure that all agencies, including the OCFO, are reconciling their Funds with Treasury balances. In addition, the task force will ensure that there are documented procedures in place for the performance of reconciliations and the preparation of supporting documentation. The procedures will also include a process for continual monitoring of agencies by the OCFO to ensure agencies are reconciling Funds with Treasury and to take appropriate action when it determines reconciliations are not being performed as required. The Department is confident that by the end of FY 2001, all its Funds with Treasury will be fully reconciled.

The Department's Employment Standards Administration (ESA) has made significant progress in improving both the Back Wage Collection and Disbursement System (BCDS) and the Civil Money Penalty (CMP) system, as recognized in OIG's FY 2000 audit report. Over the past year, the BCDS was completely redesigned, and several functions of the redesigned system have been implemented including the Debt Collection function. ESA continues its work on BCDS with a target of meeting all FFMIA requirements by the next OIG audit in 2001.

ESA has also worked closely with OIG and CFO staff for the past two years on proposed system redesign and procedural changes to address the unresolved audit recommendations for the Civil Money Penalty System. New procedures resulting from this collaborative effort were implemented early in FY 2001. DOL expects that the FY 2001 audit of both systems will result in substantially improved findings.

2. Implementation of the Workforce Investment Act (WIA)

The WIA One-Stop environment offers clients, for the first time, the opportunity to receive the job training and related services necessary to obtain long-term employment in a single location and through a streamlined process. The potential to share personnel and other resources should enhance services to customers and enable all programs administered in One-Stop Centers to realize operational efficiencies. The Department also recognizes that the WIA provisions and One-Stop environment present new programmatic and accounting challenges as outlined by OIG, and DOL is taking aggressive measures to address these challenges.

The OIG's concerns about the adequacy of guidance in the areas of individual training accounts and the establishment of eligibility criteria for training providers are addressed by the policy framework that has been largely established through the statute and final regulations. Because the new approach to training is being implemented nationally in a workforce investment system characterized by decentralized decision making and increased State and local flexibility, the Employment and Training Administration (ETA) is supporting a technical assistance process that facilitates information exchange among practitioners, grounded within the general policy framework. ETA has developed a Technical Assistance Workbook for the use of State and local managers and staff which identifies key decision points and provides guidance regarding options for Individual Training Accounts (ITAs) and Eligible Training Providers (ETPs). Specific issues highlighted in the Workbook include: how to identify who should receive an ITA; options regarding monetary caps and duration limits on ITAs, and the effects of those limits on receipt of training and the kinds of training provided; developing systems to track ITAs and their redemption, and options for systems to manage the ETP application and listing process.

The ITA/ETP technical assistance effort continues to evolve, based on ongoing assessment of the system's needs. A standard 12-hour training course on these subjects is being offered in each of ETA's regions. Planning is underway to develop the next generation of technical assistance, which is expected to include as a major topic the issue of subsequent eligibility of training providers. This is consistent with the feedback received from ETA's Regional Offices, States and local areas.

The Department recognizes that cost allocation and resource sharing could present a unique situation and special problems. The Department published on June 27, 2000 draft guidance addressing these topics in the WIA One-Stop environment. DOL has reviewed comments it received on the draft guidance, and expects to publish revised guidance in the Federal Register in the Spring of 2001. The draft guidance was reviewed and cleared by OIG.

In addition, the Department has already acted to address the allocation of administrative costs in the One-Stop environment by developing a new definition of administrative costs, publishing the definition as part of WIA final regulations, and holding training sessions nationwide on the implementation of the new administrative cost allocation procedures. OIG was actively involved in testing the definition and has provided its approval as part of the clearance process for the final WIA regulations.

3. Effectiveness of the Welfare-to-Work Initiative

DOL has completed the revised Welfare-to-Work (WtW) reporting instructions and formats to incorporate changes from the WtW Amendments of 1999 and to clarify the reporting instructions. The revised instructions were announced for public comment in August 2000, and the final instructions incorporating the comments were submitted to the Office of Management and Budget (OMB) in early December 2000. OMB is expected to approve the final instructions shortly.

The Department also has a major technical assistance effort underway to determine the degree to which grantees may be reporting incorrectly, to correct any such inaccurate reports, and to resolve grantees' reporting challenges. Moreover, the Welfare-to-Work program is part of the Department's data validity project, which is designed to provide grantees with a data validity system that will provide accurate and reliable program outcome data for Government Performance and Results Act (GPRA) performance goals. The data validity project is explained more fully under the challenge, "Quality of Program and Cost Data."

4. Quality of Program and Cost Data

Quality of Program Data:

The Department of Labor has implemented GPRA using a systematic, staged approach based on sound business practices. Our first priority has been the establishment of enduring outcome goals which target continual improvement in the achievement of the core results the Department is committed to delivering on behalf of working men and women. After several years of piloting and refining goals, a majority of the Department's programs have stabilized their goals, and DOL's focus has progressively shifted toward ensuring the reliability of our performance measures and effectively using performance data to enhance our program results

The challenges to performance measurement vary significantly among DOL's programs, with the data sources and the agencies' level of control over the reporting systems being the primary factors influencing the reliability and usefulness of the Department's performance information. DOL agencies collect critical program data from third parties, including State and local government agencies, community based organizations, private sector employers, and international organizations.

The Department's authorities to increase the frequency of reporting, establish data standards or verify the accuracy of the information reported by third parties are limited in some cases. Guidance provided in OMB's Circular A-11 acknowledges the limitations on Federal agencies' capacity to assure the quality of data received from non-Federal sources. The Circular does not require an independent capacity for verifying or validating performance data received from third party sources, and instructs agencies to be mindful of the costs and anticipated benefits of improving the quality of program information which meets decision-makers' needs.

A number of DOL initiatives to improve performance measurement are in progress and additional efforts are planned for FY 2002. During FY 2001, the Department will initiate a series of workshops and seminars on GPRA implementation to facilitate an exchange of best practices among DOL agencies, and performance measurement related issues will be a featured topic. The Department plans in FY 2002 to increase the use of program evaluations to meet a variety of performance management objectives, including supplementing information available through routinely collected performance information, reviewing the effectiveness of strategies in meeting key performance goals and analyzing the quality of data sources, indicators and reported program results.

Within the larger Departmental framework, individual DOL agencies are addressing data challenges that are unique to the agency's program environment and are developing solutions that are consistent with the Department's reporting requirements and go beyond the minimum requirements established by OMB.

ETA, for example, relies heavily on data provided from the States, and is actively working with these key program partners to obtain performance data that is timely, accurate, and relevant. ETA has engaged contract assistance to assess the agency's performance goals and the State based performance data collection systems that support these measures. ETA has also initiated a project to put in place a data validity system that will enhance the accuracy and reliability of the program outcome data provided by its grantees for GPRA goals. The approach focuses on promoting data quality throughout the workforce development system by: (1) developing common data definitions and common data formats; (2) delivering a consistent message concerning these definitions to the system; and (3) providing system-wide staff training so grantees and staff understand their role in the data collection process. A similar method is now employed for the validation of Unemployment Insurance data.

Similarly, the Veterans' Employment and Training Service (VETS) does not control its data sources, but it nevertheless is working to obtain more reliable data. A special study in the State of Maryland utilized Unemployment Insurance (UI) wage records to gain a better understanding of the outcome of services provided to veterans. This study has shown that a much larger number of veterans obtain jobs than are likely to have been captured by the information collection and reporting systems now in place. This result has been corroborated by other State studies conducted by ETA, and the two agencies are jointly designing an improved performance reporting system, based on the Unemployment Insurance wage records, a more reliable database than the sources currently in use.

ESA and the Pension and Welfare Benefits Administration (PWBA) are agencies that collect and control their own performance data. Data initiatives of these agencies are targeted at improving their internal data collections systems and processes. For example, ESA's Wage and Hour program has introduced a new computer system, the Wage and Hour Investigative and Reporting Database (WHISARD), permitting more timely access to extensive information. Because there is no unbiased database on labor standards violations or compliance, ESA faces a

major challenge in determining industry-wide levels of compliance and measuring changes in that compliance. To determine the impact of ESA efforts, a statistically sound method has been developed for establishing baselines and measuring compliance using investigation-based compliance surveys of targeted industries and areas. Data on the outcomes of repeat investigations will also be used to evaluate the relative effectiveness, or return on investment, of the various types of interventions.

The Occupational Safety and Health Administration (OSHA) and the Mine Safety and Health Administration (MSHA) have sound performance data collection systems and verification and validation processes in place. MSHA, for example, has a significant database and collection system that captures most of the information necessary to track program performance. Data has been collected for many years and the database is a well established source of data for measuring program performance. MSHA relies on mine operators and contractors to comply with legal requirements to report accurately and timely employment, injuries and accidents, and the agency conducts periodic audits to ensure compliance.

OSHA is focusing its efforts on continuing to expand data validation procedures. Validation of data generated by the agency for current performance measures will continue to be addressed through a variety of means such as annual on-site audits of employers' injury and illnesses records that serve as source data for both OSHA and Bureau of Labor Statistics reports; information and outreach programs and enforcement of the injury and illness recordkeeping regulations; revision of the injury and illness recordkeeping system (regulations, forms, and guidelines) to improve the quality of records by simplifying forms and regulations, and incorporating incentives for employers to maintain high quality records; and continuing the validation and verification of data in the OSHA Integrated Management Information System.

Data Limitations:

The lack of statutory authority to readily obtain UI wage records pertains mostly to the OIG's access to such records which are available to ETA for program evaluation purposes. The laws of a number of States, however, require that OIG obtain a subpoena to access UI records. As discussed under the management challenge on Protection of Worker Benefit Funds, routine access to Internal Revenue Service wage data through the Social Security Administration requires Congressional action to amend the Internal Revenue Code.

Managerial Cost Accounting:

The Office of the Chief Financial Officer (OCFO) began its concerted managerial cost accounting initiative during FY 2000. The OCFO chose a strategy to develop pilot projects in each program agency area. To assist in this development, as well as to speed the process toward implementation, the OCFO enlisted the support of a major accounting firm.

Agency-specific pilots involve five primary phases: identifying a business case, applying cost accounting methods, building a model, generating reports, and analyzing the data. To date, 9 out of 17 program areas have participated to some degree in pilot projects. Four agencies have completed or nearly completed their pilots and three have made significant progress.

While not among the early pilots, ETA, ESA, and other agencies in the Department maintained their participation through involvement in meetings and briefings on the developing cost accounting system. In addition, all agencies provided feedback as information on progress became available.

In FY 2000, both ETA and ESA have entered into discussions with the OCFO to develop pilot projects in FY 2001. ESA has identified a business case for their pilot, and ETA is in the process of identifying a business case. We anticipate continued progress in all the program agencies in FY 2001.

5. Security of Pension Assets

The prosecution of criminal acts relating to employee benefits plans, both health and pension, is a critical part of the Department's overall enforcement program. The Department is committed to maintaining a strong criminal enforcement program by conducting criminal investigations to detect violations that affect employee benefit plans and to assist United States Attorneys and State prosecuting attorneys in their prosecution of such cases. The number of criminal investigations and prosecutions has increased substantially in recent years and is expected to continue to grow with the advent of several new criminal provisions relating to health care plans.

Specifically, criminal cases will continue to be targeted in various ways that have demonstrated successful results in the past such as analyzing computer data, gathering information through civil investigations, leads from plan participants, plan officials, informants, and media sources, and information gained from other government agencies. The Department also maintains close working relationships with other law enforcement agencies such as the local U.S. Attorneys, the FBI, the Postal Inspectors, and the OIG. Finally, while not all fraud can be prevented, PWBA is proactive in the early detection and prevention of criminal behavior by, among other things, aggressive outreach and education campaigns. Education campaigns create knowledgeable consumers who can assist in "policing" their own benefit plans. An informed public is a good source of early detection and prevention of criminal activity and PWBA continues to leverage the knowledge of the public who may be in the best position to identify potential fraudulent behavior.

6. Protection of Worker Benefit Funds

Unemployment Insurance:

The Department has always been sensitive to the potential for systematic fraud in a program as large and complex as UI. It tries to stay abreast of the latest innovations in fraud schemes and work with its State partners to prevent them if possible, and failing that to uncover and prosecute them. The training of State employees in fraud detection techniques to improve internal program controls and improve enforcement is an ongoing activity. Through this training and through special conferences which highlight new techniques and provide for sharing of enforcement approaches, DOL has kept the UI fraud issue as a priority with the States. For example, Texas has developed an exportable fictitious employer detection system which has been shared with States at the 2000 UI Directors' conference. The DOL ETA Unemployment Insurance Program is a co-sponsor with the National Association of State Workforce Agencies in the fraud scheme prevention activities of the UI Integrity Sub-Committee. A training conference specifically focused on detecting and preventing fraud will be held in St. Louis in April of this year.

Finally, the Department's ETA and OIG are in the process of negotiating an agreement with the IRS to provide State Employment Security Agencies nationwide access to IRS 1099, Miscellaneous Income data, so employers who misclassify workers can be identified.

Federal Employees' Compensation Act (FECA):

The Department recognizes that all Government benefit programs are vulnerable to some degree to fraud. ESA works closely with the OIG to assist in preventing fraud and in identifying and

redressing that which cannot be prevented. OIG's audit work and fraud investigation experience demonstrate that the internal controls instituted by the FECA program are generally effective and reasonable. While fraud may not be eliminated in its entirety, fewer than 100 individuals are prosecuted annually for FECA fraud, out of a universe of more than 250,000 claimants receiving benefits and hundreds of thousands of medical providers billing for services. In fiscal year 1999, for example, the total amount of benefit payments made to claimants determined to have been overpaid, for fraudulent and non-fraudulent reasons, was less than 3/4 of one percent of total compensation payments made. The percentage of medical payments found to be potentially inappropriate in an OIG audit was even smaller. While some inappropriate payments may go undetected, ESA's major cost containment initiatives, including its highly successful Periodic Roll Management program and multiple medical cost savings efforts, are making significant progress in addressing those instances.

With regard to OIG's recommendations to include routine access to IRS wage data through the Social Security Administration (SSA) to identify and remove from the disability rolls claimants who fraudulently conceal earnings, automated cross-matches with the Social Security Administration (SSA) have been a DOL objective for many years. However, the Privacy Act currently prohibits the SSA from disclosing earnings information without the claimant's authorization, and ESA is prohibited from gaining access through SSA to IRS wage information without specific statutory authorization. The Department concurs with OIG's recommendation that the Internal Revenue Code, Section 6103(1) should be amended to permit this access on an automated basis.

 Black Lung Trust Fund Deficit:

The Department is cognizant of this challenge and worked closely with Treasury and OMB to develop the legislative proposal cited by OIG, which was submitted by the Secretary of Labor to Congress on October 4, 2000. Since the legislation was not taken up by the 106th Congress, the Department will address the need to obtain Administration agreement to reintroduce the proposal this year.

7. Stewardship over DOL Information Technology Resources

The Department recognizes that employee awareness and strong integration of security practices into the lines of business are essential elements to protect vital information systems. Coordinated by the Chief Information Officer, DOL uses a collaborative approach to its information technology planning and management functions. Agency information technology professionals, administrative officers, and business managers from program areas work together to develop strategic plans and turn them into reality.

The following were either completed during FY 2000, or are at the final implementation stage:

DOL Cyber Security Program Plan. Completed in October 1999, it contains the overall plans, milestones, and critical path to enhance the protection of critical information systems (October 1999). During FY 2000, in accordance with departmentwide guidance, departmental and agency information systems identified as PDD-63, A-130, or financial systems were assessed for vulnerabilities and system security. A "Cyber Security Program Plan" was prepared for each Agency. The resulting plans have been coordinated into a cohesive, structured DOL-wide information security program as required by Federal regulations and guidance.

Information Technology (IT) Architecture. Completed in March 2000, it outlines the Enterprise Architecture, lines of business, and provides a common basis for interoperability, portability and unifying standards development. Security standards are specifically addressed in the Technical Reference Model, Section 5 of the Information Technology Architecture.

Computer Security Handbook. Completed in April 2000, the handbook provides departmental guidance for developing agency-specific cyber security programs, system security plans, contingency plans, conducting vulnerability assessments, incident response and reporting, and security awareness and training. The Handbook also establishes the Department's Emergency Incident Response Team.

Systems Development and Life Cycle Management Methodology. Completed in July 2000, it provides systematic design, development, and documentation standards for information technology systems, including the application of security measures throughout a systems' life cycle.

Annual computer security awareness training was conducted in October for Department of Labor employees, including specialized information technology security training for information technology professionals.

In addition, the following security measures were implemented to better protect DOL IT resources:

- Installed an intrusion detection system on the Department's core network backbone.
- Replaced the firewall system on the core network.
- Implemented an automated tool to perform log analysis functions to facilitate detection of unauthorized access.

Recognizing the importance of well-integrated information resources and sound security, the Department has been moving toward an enterprise-wide approach to managing and developing its IT investments. For FY 2001, DOL formulated a departmentwide IT budget, managed through the Chief Information Officer. Developed through the Department's Information Technology Capital Planning and Management process, key areas for investment in FY 2001 are security and privacy, enterprise architecture implementation (includes web services), and implementation of a common office automation suite for employees' desktop computers.

Security and Privacy. In FY2001, the Department will continue its efforts to strengthen and expand its computer security program. The investments needed to ensure that information security policies, procedures and practices are adequate are reflected in the FY2001 budget appropriations. Additionally, as required by Presidential Decision Directive 63, these initiatives enable the Department to embark on the first of a five-year planned effort to improve information assurance and protect the nation's critical infrastructure. The specific activities and information pertaining to the implementation of the Department's five-year plan can be found in the Critical Infrastructure Protection Plan, Cyber Security Program Plan, and the Computer Security Handbook.

Enterprise Architecture. In FY 2001, the Department plans to develop expanded business, data, application, and technology baselines. The next step will be to establish DOL's target architectures and implementation strategies. These efforts will support improved management of IT by:

- Identifying how the Department conducts business and improving processes to better meet customer expectations and requirements;
- Identifying paper-intensive processes that should be made electronic;
- Identifying and reducing redundancy;
- Identifying extraneous processes, if any;
- Ensuring a common, standards-based approach to technology investment and management;
- Ensuring consistent security and privacy techniques throughout the Department; and,
- Providing a methodology for identifying and prioritizing E-government initiatives.

These steps will move DOL appreciably closer to a unified information technology enterprise and position the Department to respond to the dynamic business needs in the digital era.

Common Office Automation. In FY 2001, the Department plans to continue implementing a common office automation suite across all agencies. Implementation of a standard office automation suite is a major step toward achieving a fully interoperable enterprise-wide infrastructure and common application architecture, which will facilitate improvements in collaborative planning and information exchange. The standard chosen for the Department of Labor is Microsoft Office Suite, which provides integrated word processing, spreadsheet, presentation graphics, database and electronic mail interface applications. The individual products were specifically engineered to ensure direct interoperability between the different applications.

To continue to achieve and maintain Departmentwide information technology interoperability in a financially responsible manner, the Department has implemented Phase I of an enhanced IT Capital Planning and Investment Management Program. This Program uses the Information Technology Investment Portfolio System (I-TIPS) to automate IT investment management. The process employs a standardized risk and return evaluation criteria; thresholds to prioritize which IT investments require executive management attention; a multi-tiered Investment Review Board structure; and IT portfolio management approaches which are directly responsive to the Clinger-Cohen Act.

The first phase of the IT Capital Planning and Investment Management Program enabled the Department to identify those FY 2001 initiatives that were directly related to the needs identified in the FY 2000-FY 2004 IT Strategic Plan and considered essential to improving the overall condition of the DOL IT environment. The Department is in the process of implementing Phase II of its IT Capital Investment Management Program which will focus on: 1) updating FY 2001 information in I-TIPS with additional selection information, including risk and return information; 2) updating OMB Circular A-11, Exhibit 300b initiatives in I-TIPS with control information; 3) capturing FY 2002 selection information and remaining IT base information in I-TIPS; 4) conducting control reviews of approved initiatives; and 5) conducting post implementation reviews of selected implemented initiatives. The goal of this data capture strategy is to manage the Department's entire IT budget in I-TIPS. The approach is based on a highly collaborative, participatory, and deliberative process between the CIO and the Departmental agencies. The Department's process is documented in the DOL Guide to IT Capital Investment Management (Version 2.0, May 2000).

This structured approach will help the Department meet E-government challenges, including: 1) managing traffic loads that will be generated by E-government products and services; 2) connecting legacy databases to obtain a consolidated view of customers; 3) keeping diverse E-government content up-to-date; and, 4) addressing cross-agency application development in an organized manner. The analysis will also provide a basis for developing a coherent strategy for integration or modernization of existing systems to facilitate E-government.

8. The Integrity of Benefit Programs Must be Ensured in an Electronic Environment

The Department acknowledges that any significant revision of benefit payment processes -- including those utilizing automation -- must be designed and implemented such that vulnerability to fraud and abuse is assessed, and appropriate controls are developed to minimize or curtail that vulnerability. Since the realm of information technology entails its own complex security issues, this requires that techniques used to safeguard benefit adjudication and payment systems must interface with and be carried out within the framework of a comprehensive computer security plan.

ESA, the umbrella organization under which the FECA program operates, developed such a computer security plan in 1998 which covers all data and applications housed on ESA's Information Technology (IT) platform. Developed within that framework, the recently initiated "OASIS" project, which entails

electronic imaging and handling of FECA case files, greatly enhances program controls over incoming mail. It is independent from, and has no impact upon, the pre-existing computer systems used to effect and account for payments. Since it merely substitutes electronic images for paper claim files, OASIS does not open or enlarge any avenue for program fraud. There has been no suggestion to the contrary in any audit report or finding received by the Department to date. Despite the OIG's reference to the FECA system in its general statement regarding "electronic claims," there is no reason to assert that OASIS has or could increase vulnerability to fraud and abuse.

State Employment Security Agencies (SESAs) operate a number of integrity programs to prevent and detect fraud in the Unemployment Insurance (UI) program. All States are required to operate a Benefit Payment Control program as well as a Benefit Accuracy Measurement program whereby weekly samples of all claims are reviewed for accuracy and detection of systemic problems. These activities have been a part of ongoing UI program operations for many years. ETA Regional Offices conduct formal on-site reviews of these programs in the SESAs to identify problems or weak areas and recommend solutions. Regardless of whether a SESA takes claims in-person or by a remote method(s), attention is placed on the integrity of the system.

Beginning in fiscal year 1999, ETA requested and obtained additional funding from Congress for integrity activities, including $20 million that first year, and $35 million for fiscal years 2000 and 2001. These funds were designated for:

- screening initial claims for issues,
- Benefit Payment Control,
- tax field audits, and
- eligibility reviews.

All of these activities serve to help detect schemes to defraud the UI system, regardless of the methods used to file claims.

The UI system pays out approximately $20 billion in benefits annually. Historically, overpayments have been a small percentage of benefit payments, and employer schemes or multi-claimant schemes have been but a small percentage of these overpayments. ETA has advised SESAs of methods for detecting schemes of these types and provided guidelines for referral of certain such schemes to the OIG for assistance or prosecution. There is no evidence that such schemes have increased in SESAs that have implemented remote claims taking.

Program integrity continues to be a management priority for ETA and for SESAs as they transition to an electronic environment. Most SESAs are currently using telephone initial claims taking systems as the primary means of accepting UI claims, and many SESAs are beginning to implement Internet-based systems to accept UI claims from unemployed workers. ETA expects the trend towards increased use of telephone and Internet claims systems to continue.

ETA is emphasizing the importance of UI program integrity in an electronic environment as follows:

- System security must be addressed by SESAs in their proposals for remote initial claim grants and is one criterion upon which proposals are evaluated.
- ETA provides technical assistance to the SESAs on telephone and Internet-based claims systems through the ITSC (Information Technology Support Center). The ITSC covers security aspects of both telephone and Internet-based claims systems in considerable detail during its training seminars and in its planning guidance documents on these subjects.

- ETA is drafting a guidance directive covering computer security and emergency preparedness which will provide comprehensive guidance to the SESAs on these subjects.
- ETA is supporting a national UI integrity conference to be held April 10-11, 2001, in St. Louis. This conference is aimed at UI program managers, benefit payment control and internal security staff and others interested in UI program integrity. A number of workshops will specifically address issues involving telephone and Internet-based claims systems. The OIG will also be participating in the conference.

In addition, ETA funded a joint study by the ITSC and Mathematica Policy Research to evaluate the impact of telephone initial claims (TIC) filing. This study included an examination of the impact of TIC on UI benefit overpayments, including overpayments due to fraud. While a statistical analysis was conducted, data limitations did not permit definitive conclusions. However, the study indicated that telephone initial claim filing does not generally have negative impacts on program integrity, and that it may improve program integrity in some instances. This improvement is likely due to stringent procedures used by SESAs to verify claimant information, e.g., on-line checks with the State's motor vehicle administration to verify identity, and the continued use of computer cross matches to detect overpayments. The results of the joint ITSC/Mathematica Policy Research study have been further corroborated by ETA data analysis of approximately 150,000 UI claims from 1995 through 2000, which found no statistically significant differences in the incidence of fraud in claims filed by traditional procedures versus those filed by telephone.

9. Targeting of the Dislocated Workers Program

The OIG's audit report does not adequately consider the authority vested in State and local governments and the need for flexibility in addressing local labor-market conditions. State and local flexibility in establishing criteria for eligibility determination is key to an effective program.

A number of actions are being taken to address the issues raised in the report. ETA plans to increase dislocated worker program technical assistance and monitoring activities and is developing a technical assistance guide, with appropriate partners, to ensure that State/local programs adequately document participants' eligibility. ETA is also reviewing the current formula for determining allocation of dislocated worker funds, considering the implications of various other formulas. Finally, a contractor has been engaged to design, develop, and implement a data validation system to ensure that data for the dislocated worker program, as well as other programs, are accurate. Under WIA, the Department will be using Unemployment Insurance wage record data, which will also help reduce data errors that were identified in the OIG's audit.

10. Challenges of Rapid Expansion of the Bureau of International Labor Affairs

During the past year, the OIG conducted an audit of the Bureau of International Labor Affairs' (ILAB) management systems and an evaluation of program implementation of the Child Labor projects. To date, all the evaluation recommendations for the Child Labor Program have been resolved and closed. ILAB has also addressed all the identified management issues and the proposed recommendations have been resolved and closed.

ILAB will continue to refine its procedures and management systems to insure that the necessary controls are in place to support the current program level and ensure fiscal accountability. The following points summarize actions that have been completed or are in progress to strengthen management controls and accountability over ILAB's programs.

Reinforcement of ILAB's Grant/Contract Management Systems

- New staff, including personnel with expertise in grants management, program oversight, program management and evaluation have been hired.
- Agreement with the ILO on a set of management procedures and guidelines for the development and implementation of USDOL-funded technical assistance programs has been signed.
- Through an agreement with OASAM three grant/contract specialists are now permanently assigned to provide full-time support to ILAB in carrying out grant/contract responsibilities.
- Project staff in all program areas have been provided training in grants/contract management.
- Work has been initiated on developing a financial tracking system within ILAB that is compatible with the Department's accounting system.
- Grants and contracts include outcome measures which support ILAB's performance goals
- Grantees and contractors are required to submit financial and program accomplishment reports on a quarterly basis and these reports are monitored by ILAB for prompt identification of projects requiring on-site technical assistance.

Program Evaluation and Accountability

- ILAB has executed cooperative agreements with the ILO which require increased reporting in the financial and performance areas.
- ILAB, through an exchange program with the Department of State, is placing staff in embassies overseas to monitor the implementation of ILAB funded projects.
- ILAB has enhanced its evaluation capacity by hiring staff with the required expertise.